

Report Card

TEACHERS' FUND FOR RETIREMENT

MAY 2000

2001 Proposed TFFR Legislation

If approved, the TFFR Benefit Increase Bill will raise the formula used to calculate your retirement benefits from 1.88 percent to 2.0 percent. This improvement would mean a 6.4% increase in the benefits of an average retiree (30 years with \$30,000 salary) for a monthly benefit of \$1,500 (60 percent of \$30,000).

This bill also provides a postretirement benefit increase to all annuitants receiving benefits on June 30, 2001. Modeled after the 1999 formula, the monthly increase is calculated by multiplying \$2 times the member's

years of service plus \$1 times the number of years since the member's retirement.

In addition, a 0.5 percent monthly benefit increase would be granted to all annuitants each year. The annual percentage increase would assist all retirees in paying for increasing health insurance costs and help retirees protect their purchasing power from the effects of inflation.

The TFFR administrative bill clarifies the definition of "teacher" and "contract." This bill also allows limited

(continued on page 3)



**NORTH DAKOTA
RETIREMENT AND
INVESTMENT OFFICE**

*Teachers' Fund for Retirement
State Investment Board*

TFFR Board of Trustees

Mark Sanford, *President*

Barb Evanson Paul Lofthus
Norman Stuhlmiller H.L. "Curly" McLain
Kathi Gilmore Wayne Sanstead

RIO Administrative Office

Steve Cochrane, *Executive Director/CIO*
Fay Kopp, *Deputy Director/Retirement Officer*
Shelly Schumacher, *Editor*

ND Retirement and Investment Office

1930 Burnt Boat Drive, P.O. Box 7100
Bismarck, ND 58507-7100
701-328-9885, ND toll free: 1-800-952-2970
Relay ND: 1-800-366-6888

Articles are for general information only and are not intended to provide specific advice or recommendation. Other forms of this newsletter are available on request.

Visit Our Web Site www.state.nd.us/rio

The Retirement and Investment Office (RIO) web site at www.state.nd.us/rio is ready for you! It provides easy access to information about your retirement plan, investments, publications, forms, and a lot more.

When you visit our web site, please take the time to explore the "TFFR" tab. You will find information about the TFFR Board and your pension plan. You can also access publications and forms. Just fill out the form online, print, sign, and send it to our office.

We also hope to add a Benefit Calculator to our site to allow you to project your own estimated retirement benefits. Keep watching!

If you are interested in TFFR's investment returns, don't miss the "SIB" tab. Here you will learn more about the Board who oversees the investment activities. You will also be kept up to date on the investment returns and asset allocation for your fund.

The "NEWS" tab contains a wide range of information that may be of interest to you. It is frequently updated with the latest items affecting RIO.

We plan to continue to improve our web site and welcome your suggestions or comments. Contact us at the administrative office or email us at rio@state.nd.us.

Fighting Inflation

The Benefit Protector Approach

By Fay Kopp

Put yourself in the living room of a soon-to-be retired teacher and spouse. You may overhear them discussing the financial ramifications of living without the security of a full-time job and related paycheck. Will their financial resources be sufficient? What type of lifestyle will they be able to afford during their golden years? Will inflation, long life expectancies, and rising health care costs alter their retirement plans?

Many of the answers to the above depend on one word – inflation. And while no one can accurately forecast the rate, it still deserves serious consideration. For example, even if inflation only averages 3 percent each year, then an item that costs \$1 today would cost \$1.34 in ten years and \$1.81 in twenty years. Inflation will erode the value of retirees' financial resources over time.

To offset this inflationary effect, many private and public sector plans across the country provide post employment cost-of-living adjustments (COLAs) to retired workers. In fact, about two-thirds of statewide teacher plans provide automatic benefit increase adjustments. As the competition for teachers accelerates, and in order to attract and retain teachers in our own state, the TFFR Board believes it is important to include retirement plan features similar to those found in other states.



Fay Kopp
Deputy Executive Director

The increases granted by the North Dakota Legislature to TFFR retirees in the past years have all been ad hoc COLAs, calculated using a variety of different formulas. Ad hoc increases have the smallest cost impact, since they involve no commitment to grant future increases. Unfortunately, they leave the members uncertain about when and how much their benefits will be increased in the future.

Automatic increases assure retirees that their benefits will be adjusted to offset all or a portion of the impact of inflation, allowing for better planning by retirees. They also allow the costs of COLA's to be prefunded. Some increases provide for a fixed rate of adjustment; others, like Social Security, might be a floating rate tied to changes in the Consumer Price Index.

As part of its legislative package, the TFFR Board is suggesting a plan to

begin building a Benefit Protector – an annual, fixed rate increase for all TFFR retirees to counterbalance purchasing power losses due to inflation. In addition to improving the retirement formula to 2.0 percent for all future retirees, proposed 2001 legislation would provide a retiree increase similar to the 1999 formula plus an additional 0.5% Benefit Protector increase. As actuarial margins build, and as more teachers retire under the 2.0 percent multiplier, the Benefit Protector percentage could be increased. This would allow TFFR to transition to a modest fixed rate COLA in the future.

A two-level increase would allow older retirees with low benefits to continue building their retirement benefit with the base increase component. It would also help all retirees to begin protecting their purchasing power through the 0.5 percent Benefit Protector component. It may not amount to much now, but as it grows, the Benefit Protector percentage could help combat the increasing costs of health insurance and other consumer needs.

Imagine, 20 or 30 years from now, all TFFR members retiring with a 2.0 percent multiplier, confident that their retirement benefit will be protected from inflation through an annual fixed rate increase.

Legislation being proposed today reflects this vision. With your support, it could become a reality for future generations of retired teachers.

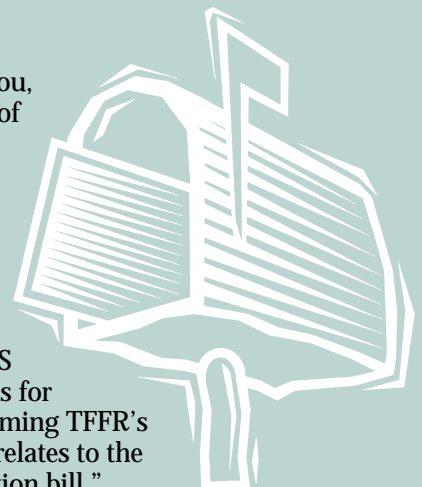
Watch Your Mailbox

The 1999 Legislature approved a provision allowing a retired TFFR member to immediately return to work for one year without losing any retirement benefits provided at least 50 percent of salary is placed in an educational foundation. However, this provision can only become effective after receipt of a letter from the Internal Revenue Service (IRS) indicating that it will not jeopardize the qualified status of TFFR.

Due to this legislation, the TFFR Board is applying for a determination letter from the IRS on the qualified status of TFFR. As part of the process required by the IRS, we will be mailing a "Notice to Interested Parties" to all active TFFR members in early June. The "Notice" is

intended to inform you, the plan participant, of this application and your right to comment. No action is required by you, however.

Please be assured that requesting an IRS determination letter is for the purpose of confirming TFFR's qualified status as it relates to the "educational foundation bill."



Proposed Legislation

(continued from cover)

disclosure of retirement-related information to a member's employer, state and federal agencies, and member interest groups approved by the TFFR Board.

After an extensive review, the Board is requesting modifications to the return to teach provisions. If passed, the waiting period before a retiree can return to TFFR covered employment would be reduced from 60 days to 30 days. The current 90 working day limitation of 4 hours or more (or less than 4 hours unlimited) will remain the same. In addition, this bill improves the recalculation of benefits for a retiree who returns to covered employment, exceeds the 90-working day limit, and re-retires with two or more years of additional earned service credit. The new recalculation would be the greater of:

- The sum of the discontinued annuity plus an additional amount based on the additional service, salaries and new multiplier, if applicable, plus any post retirement increases granted during the re-employment.

OR

- A recalculated annuity based on the current multiplier and total years of service and salaries earned during both employment periods, offset by the actuarial value of any payments already received.

Both TFFR bills were submitted for study to the Legislative Employee Benefits Programs Committee. TFFR's actuary, Watson Wyatt, will prepare the July 1, 2000 actuarial valuation report this fall. Results of the valuation will determine the amount of actuarial reserves available for funding the plan improvements. Detailed bill drafts are available at the administrative office.

TFFR Outreach Services Coming Your Way

BENEFITS COUNSELING SESSIONS

Individual 30-minute benefits counseling sessions are available to all members to discuss TFFR benefits and other retirement concerns. Call to schedule an appointment today... 1-800-952-2970 or 701-328-9886.

Wahpeton	September 12, 2000
Valley City	September 13, 2000
Jamestown	September 14, 2000
Grand Forks	October 3-4, 2000
Grafton	October 5, 2000
Bottineau	October 11, 2000
Devils Lake	October 12, 2000
Williston	November 14, 2000
Dickinson	November 15, 2000
Fargo	December 6-7, 2000
Bismarck	January 23-24, 2001
West Fargo	February 7-8, 2001
Minot	February 20-21, 2001
Rugby	February 22, 2001

PRE-RETIREMENT SEMINARS

Pre-retirement seminars are six hour programs held from 4 pm to 7 pm each day. The topics covered are TFFR benefits, Social Security benefits, financial planning, estate planning, health insurance and adjusting to retirement. To register for a pre-retirement seminar, complete and return the registration form.

Please select one:

- | | |
|--|---|
| <input type="checkbox"/> Bottineau - September 18-19, 2000 | <input type="checkbox"/> Bismarck - January 10-11, 2001 |
| <input type="checkbox"/> Dickinson - October 24-25, 2000 | <input type="checkbox"/> Wahpeton - March 13-14, 2001 |

Name: _____ SSN: _____

Address: _____

City: _____ State: _____ Zip: _____

Home phone: _____ Work phone: _____

Will your spouse/guest be attending? ☐ Yes ☐ No

If your spouse/guest is also a teacher, please provide SSN: _____

Mail to: ND Retirement and Investment Office
P.O. Box 7100, Bismarck, ND 58507-7100

TFFR Outreach Program

A program participant said it best...

I would like to thank you for bringing the TFFR Pre-retirement Seminar to my school.

I have been in touch with TFFR and the Social Security Administration, and have done some financial planning. Thanks to your seminar, I now have a much greater understanding of the various TFFR options available to me at retirement. I also gained a better understanding of Social Security and had my questions answered by the representative from our local Social Security office.

The health insurance part of the seminar was very valuable to me. After listening to the PERS representative, I realize that this health plan may work for me when I retire.

The financial planner did an excellent job of presenting an overview of proper financial planning. This is one session that I should have attended earlier in life. (I know TFFR has told us that before!!)

As a result of hearing the attorney who presented the estate planning section, I will now actually get around to meeting with a lawyer to take care of preparing a will, power of attorney, and a living will.

The retiree panel on adjusting to retirement was a great addition to the seminar. It helped me to feel a little less "scared" of the whole idea of retirement. It was great to hear fellow teachers from this area share their thoughts, plans and feelings so openly.

Thanks again for making this possible.



Williston Pre-retirement seminar participants.

If you would like to experience the satisfaction the author of this letter felt, we encourage you to participate in a TFFR Outreach Program. For more information, call 701-328-9886 or 1-800-952-2970.



Williston area retirees participating in the "Adjusting to Retirement" segment of the seminar.



Devils Lake Pre-retirement seminar participants take the opportunity to ask questions of the retiree panel.

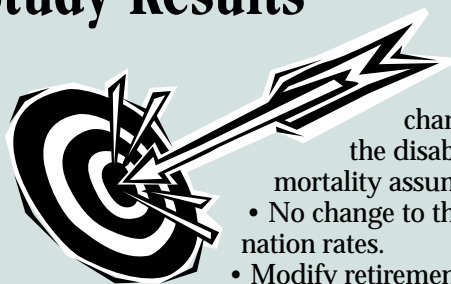
Experience Study Results

TFFR's actuary, Watson Wyatt & Company, recently completed an Actuarial Experience Study. The study compares TFFR's actual plan experience to the expected experience over a five-year period.

TFFR uses the study to evaluate the accuracy of the assumptions used in annual valuations. The experience study revealed a need to adjust some of the assumptions.

At their March meeting, the TFFR Board approved the following:

- Change the inflation rate from 4 percent to 3 percent.
- Leave the investment return rate at 8 percent.
- Update the salary increase rates.
- Change the mortality rates for both male and female.
- Increase the disability incidence rates by 60 percent.



- No change to the disability mortality assumption.
- No change to the termination rates.
- Modify retirement rates to assume a greater number of members retiring when first eligible.
- Update the profile of a new member.
- Change asset valuation method to smooth all investments returns over a five-year period. The current method does not smooth interest and dividend income, only realized and unrealized gains and losses.

According to Michael Carter, Watson Wyatt, "With the Board's approval of the recommendations in this report, we believe the actuarial condition of TFFR will be more accurately portrayed."

FICA Taxable Wages or Not?

The Internal Revenue Code (IRC) allows employers of qualified retirement plans to "pick-up" (pay) required employee contributions. These "picked-up" employee contributions can be excluded from gross income for federal income tax purposes until paid as a monthly annuity payment or a lump sum distribution/refund. Since 1983, state statutes have granted TFFR employers the option to "pick-up" required employee contributions under either a salary reduction plan or in lieu of a future salary increase. Under both federal and state regulations this is clearly allowable.

However, the impact of certain employer "pick-up" plans on FICA taxable wages for Social Security purposes is now being questioned. It is our understanding that a North Dakota school district is currently involved in an IRS audit relating to their tax deferred programs. According to a preliminary opinion from an IRS auditor, the employer-paid member contributions to TFFR may be subject to FICA tax (Social Security) for both the employer and the teacher.

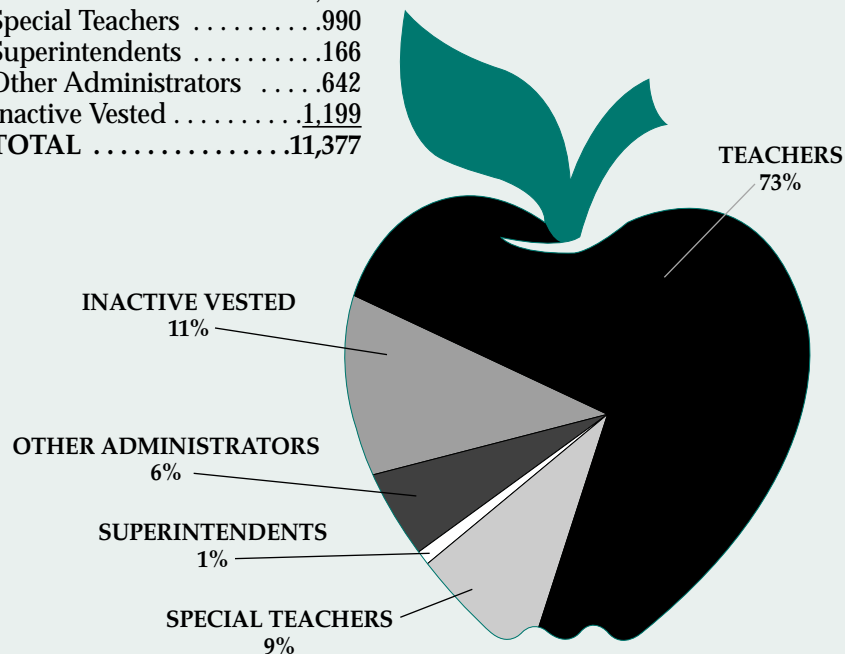
Teachers whose employers pay all or a portion of their TFFR contributions in lieu of a salary increase may be affected by this potential problem. Teachers who pay their TFFR contributions through a salary reduction plan should not be impacted.

At this time, the TFFR Board is uncertain of the final outcome. We are involved in discussions with the school district, member interest groups, consultants, and the Attorney General's Office. A meeting has been requested with the IRS and the above parties to assist in resolving this complicated issue.

Please be patient as we work through this issue. We will keep you informed of our findings.

Our TFFR Members as of April 2000

Teachers	8,380
Special Teachers	990
Superintendents	166
Other Administrators	642
Inactive Vested	1,199
TOTAL	11,377



Purchase of Air Time

We've all heard or said the phrase "I just need a little more time." Well, TFFR is now providing active members an opportunity to buy that time.

With 1999 legislative changes in place, active TFFR members who have a minimum of five years of earned TFFR service, have the opportunity to buy "air time" that can be used toward retirement eligibility and benefits. This credit is not dependent on previous teaching service and can be purchased any time before retirement.

The purchase of this service credit is limited to a maximum of 5 years and may be purchased in smaller increments. The cost of this service credit is the actuarial equivalent and takes into consideration the member's



current and retirement age, the final average salary, the number of years to the Rule of 85 (including years being purchased), and the increase in benefits that will be paid as a result of purchasing the additional credit. It is very important to note that any money paid to purchase credit

becomes part of your account value. The purchase of service credit is not tax deductible, but in turn, a small portion of your monthly retirement benefit will be nontaxable until you recover this cost.

Flexibility is also key in the purchase and payment of service credit. Various types of purchase agreements can be implemented and there are no penalties for early payment. Money from a qualified 401(a) plan including 401(k) plans or from a conduit IRA containing only 401(a) or 401(k) funds may also be used for the purchase of air time if directly rolled over to TFFR. The one exception: funds from 403(b) plans, 457 plans, or regular IRAs cannot be accepted. Call the TFFR office if you are interested in "buying time."

1930 BURNT BOAT DRIVE
P.O. BOX 7100
BISMARCK, ND 58507-7100
Teachers' Fund for Retirement
State Investment Board
INVESTMENT OFFICE
RETIREMENT AND
NORTH DAKOTA



BULK RATE
US POSTAGE
PAID
PERMIT NO. 325
BISMARCK, ND
58501